

Message Text

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: GOI MOVES TO MOBILIZE FOREIGN EXCHANGE SAVINGS OF INDIAN
RESIDENTS ABROAD

SUMMARY: GOI HAS OFFERED LIBERAL TAX CONCESSIONS AND OTHER
FISCAL INCENTIVES TO INDIAN NATIONALS AND PEOPLE OF INDIAN
ORIGIN RESIDENT IN FOREIGN COUNTRIES TO TRANSFER PART OF THEIR
FOREIGN EXCHANGE EARNINGS FOR INVESTMENT IN INDIA. END SUMMARY.

1. AT A PRESS CONFERENCE IN NEW DELHI ON AUGUST 25, FINANCE

MINISTER C. SUBRAMANIAM OUTLINED A FOUR-POINT PROGRAM UNDER WHICH
THE GOI HAS DECIDED:

A) TO ALLOW NON-RESIDENT INDIANS TO OPEN "EXTERNAL" BANK
ACCOUNTS IN INDIA WHICH WILL BE DESIGNATED IN SELECTED
CONVERTIBLE CURRENCIES, WITH FACILITY OF REPATRIATION OF
PRINCIPLE AND INTEREST AND TAX EXEMPTION OF INTEREST

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EARNED ON SUCH DEPOSITS;

B) TO PERMIT INVESTMENT BY NON-RESIDENT INDIANS OF THEIR FOREIGN EXCHANGE FUNDS IN SELECTED INDUSTRIAL DEVELOPMENT PROJECTS IN INDIA, PROVIDED SUCH INVESTMENT DOES NOT EXCEED 20 PERCENT OF THE SHARE CAPITAL OF THE PROJECT, WITH FACILITY OF REPATRIATION OF CAPITAL OR DIVIDENDS;
C) TO ALLOW TAX EXEMPTION ON DIVIDENDS RECEIVED BY NON-

RESIDENT INDIANS FROM INVESTMENT IN "UNITS" SOLD BY THE GOI UNIT TRUST OF INDIA; AND

D) TO PERSUADE ALL INDIAN PASSPORT HOLDERS TO REMIT BETWEEN 5 AND 10 PERCENT OF THEIR FOREIGN EXCHANGE EARNINGS "THROUGH AUTHORIZED CHANNELS".

2. NON-RESIDENT BANK ACCOUNTS. IN THE PAST, FOREIGN CURRENCY ACCOUNTS MAINTAINED BY NON-RESIDENTS IN INDIAN BANKS WERE DESIGNATED IN INDIAN RUPEES THE DEPOSITORS HAD TO ACCEPT ALL LOSSES RESULTING FROM CURRENCY FLUCTUATIONS AT THE TIME OF REPATRIATION OF PRINCIPLE OR INTEREST. THIS WAS A SERIOUS DISINCENTIVE TO INDIANS EMPLOYED IN FOREIGN COUNTRIES TO REMIT FOREIGN EXCHANGE TO INDIA WHICH HAS NOW BEEN REMOVED. THESE "EXTERNAL" ACCOUNTS WILL BE DESIGNATED IN SELECT CONVERTIBLE CURRENCIES SUCH AS POUNDS, DOLLARS OR DM. ONLY NON-RESIDENT INDIAN NATIONALS OR ALIENS OF INDIAN ORIGIN, BUT NOT ANY OTHER FOREIGN NATIONAL, WILL BE PERMITTED BY THE GOI TO OPEN AN EXTERNAL ACCOUNT IN INDIA. INTEREST EARNED ON THESE NON-RESIDENT ACCOUNTS WILL BE TAX EXEMPT.

3. INVESTMENT IN INDUSTRY. THE INDIAN FOREIGN EXCHANGE REGULATION ACT STATES THAT INVESTMENT BY FOREIGNERS WOULD BE ALLOWED ONLY IN AREAS THAT CALL FOR TECHNOLOGY NOT AVAILABLE IN INDIA AND IN SECTORS WITH HIGH EXPORT POTENTIAL. UNDER THE ACT, NON-RESIDENT INDIANS WHO OPTED TO REPATRIATE EITHER THE CAPITAL INVESTED IN INDUSTRY OR DIVIDENDS WERE TREATED LIKE ANY OTHER FOREIGN NATIONAL, A CONDITION THAT HAS NOW BEEN WITHDRAWN. NON-RESIDENT INDIANS WOULD NOW BE ABLE TO INVEST LIKE ANY OTHER INDIAN NATIONAL IN CERTAIN SELECTED INDUSTRIES, A LIST OF WHICH IS BEING PREPARED BY THE GOI, AND CLAIM ALL LICENSING AND TAX PRIVILEGES NORMALLY ENJOYED BY INDIANS RESIDING WITHIN THE COUNTRY. BY RESTRICTING EQUITY PARTICIPATION TO 20 PERCENT THE GOI HAS TAKEN PRECAUTION TO ENSURE THAT NON-RESIDENT INDIANS DO NOT ACQUIRE A

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CONTROLLING SHARE IN INDIAN INDUSTRIAL UNDERTAKINGS.

4. TAX EXEMPT DIVIDEND INCOME. ONE OF THE AUTHORIZED USES OF FOREIGN CURRENCY ACCOUNTS OF NON-RESIDENT INDIANS IS INVESTMENT IN "UNITS" SOLD BY THE UNIT TRUST OF INDIA. PREVIOUSLY, ONLY DIVIDENDS OF UP TO RS.5,000 A YEAR WERE EXEMPT FROM TAX. THE CEILING HAS NOW BEEN REMOVED. REPATRIATION OF SALE PROCEEDS OF THE UNITS AND OF DIVIDEND INCOME WILL CONTINUE TO BE PERMITTED

FREELY.

5. FOREIGN EXCHANGE EARNINGS OF INDIAN PASSPORT HOLDERS. THE GOI CLAIMS IT SPENDS CONSIDERABLE AMOUNT IN MONEY AND MATERIALS TO PROVIDE EDUCATION AND TRAINING TO INDIAN TECHNOLOGISTS, SCIENTISTS, ENGINEERS, AND DOCTORS WHO TAKE EMPLOYMENT IN FOREIGN COUNTRIES AND IS THEREFORE ENTITLED TO ASK FOR A PART OF THEIR FOREIGN EXCHANGE EARNINGS FOR INVESTMENT IN INDIA. NON-RESIDENT INDIANS EARNINGS OVER DOLS12,000 A YEAR WILL BE ENCOURAGED TO ENTER INT A CONTRACT WITH THE GOI AGREEING TO REMIT 10 PERCENT OF THEIR EARNINGS. THE STIPULATION THAT SUCH TRANSFERS SHOULD BE EFFECTED THROUGH "AUTHORIZED" OR BANKING CHANNELSIS A TACIT ADMISSION THAT IN THE PAST, NON-RESIDENTINDIANS HAD REMITTED CONSIDERABLE SUMS IN FOREIGN EXCHANGE THROUGH ILLEGAL CHANNELS AT PREMIUM RATES OF EXCHANGE.

6. FOREIGN CURRENCY ACCOUNTS IN INDIA MINISTRY OF FINANCE DATA SHOW THAT AT THE END OF DECEMBER 1974 THERE WERE 20,000 ACCOUNTS OF NON-RESIDENT INDIANS IN INDIAN BANKS, AGGREGATING RS.280 MILLION COMPARED TO ABOUT 16,000 ACCOUNTS TOTALING RS.226 MILLION AT END DECEMBER 1973.

7. COMMENT. WITH THE INDIAN RUPEE SLIDING DOWN WITH THE POUND STERLING TO WHICH IT ISLINKED, THE DIFFERENCE IN THE OFFICIAL AND UNOFFICIAL EXCHANGE RATES OF THE INDIAN RUPEE IN RELATION TO THE DOLLAR HASNARROWED CONSIDERABLY IN RECENT MONTHS. THE STRINGENT INDIAN GOVERNMENT ACTION TO CHECK ILLEGAL TRANSACTIONS IN FOREIGN EXCHANGE IS ANOTHER FACTOR THAT WOULD DIVERT UNOFFICIAL FOREIGN EXCHANGE TRANSFERS BY NON-RESIDENT INDIANS TO COMMERCIAL BANKING CHANNELS. SINCE THE CRACKDOWN INWARD REMITTANCES THROUGH LEGAL CHANNELS HAVE RISEN TO RS.31 MILLION DURING THE PERIOD JAN.-MAY 1975 COMPARED TO 19.5 MILLION IN THE SAME PERIOD A YEAR AGO. THE ANNOUNCEMENT OF PRESENT INCENTIVES UNCLASSIFIED

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BY THE GOI APPEARS TO BE PROPITIOUSLY TIMED AND MAY RESULT IN CONSIDERABLE ADDITIONAL ACCRUAL OF FOREIGN EXCHANGE RESOURCES IN THE COMING MONTHS.SAXBE

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